

**EXHIBIT 68**

## Ascot

<b>Particular Fund</b>	Ascot Fund	<b>Present (Us)</b>	Greg Ho, Jason Orchard, Yoshio Ino, Tomohiro Morita
<b>Date</b>	11/14/2005		
<b>Medium of Interaction</b>	On-Site Visit	<b>Present (Them)</b>	Ezra Merkin
<b>Reviewer</b>	Jason Orchard		

We met with Ezra Merkin to get a better understanding of the Ascot Fund and strategy and a sense of how he thought the strategy could perform in the next 12-24 months. Today the Ascot strategy has over \$1.7B of which 48% of the AUM was in the offshore fund. Gabriel Capital will not register and therefore investments after the January 1, 2006 opening will be subject to the two year lock up mandated by the SEC. Investments on January 1, 2006 and all previous investments will still have quarterly liquidity on 30 days notice.

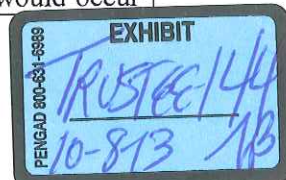
### Strategy Review

Ezra describes the Ascot strategy as an options premium hedging strategy. Ultimately, the manager is looking to collect premiums for overpriced options. For the most part, the fund trades stocks in the S&P 100. Because of the size of Ascot and other Madoff feeder strategies, the stocks which are traded are typically the largest and most liquid companies on the exchanges. Positions are typically held for 3-6 months and can be taken off in a variety of ways, including options expiry, stocks being called or put away, or position unwinding. Therefore, it is not a very tax efficient strategy for on-shore investors (although Ezra did mention that when the US tax law considered long term gains at six months, the fund was managed to hold positions for six months and a day).

In any given month, the Ascot funds are either fully invested or not invested (although it was not clear from our conversation with Ezra as to when that decision is made, i.e. is the decision to invest made on the first of the month or can it be made anytime within the month?) Ezra estimates the fund is in cash 10%-25% of the time and is fully invested (less 30 bps of cash held by CFO) during the other time periods. Cash balances are held at Morgan Stanley and are not aggressively managed. Most of the time short term treasuries are bought as the available cash needs to be invested in short duration paper. Ezra did mention that they have started to look at ways in which to better manage cash, but are limited in what they can do as cash investments have to have durations of 5 days or less. Obviously, a rising interest rate environment will benefit the fund as cash will earn more in a higher rate environment.

When the fund is invested, the manager will be in either a bullish or bearish position in which the investment views are expressed via one of the following four strategies:

1) A bull spread trade – In this strategy, the manager is long a stock, long a put option and short a call option with the same expiration. The options generally expire between one and six months and are typically positioned so that the short call position can finance the long put position. Oftentimes, in a bullish market environment, the short call position provides a small credit to the net long put/short call position. Once this leg of the trade is executed, the manager will then try to establish a long position in the stock at a price which sells closer to the put. In the example Ezra described to us, the fund would short a call at 95, be long a put at 90 and would seek to buy the stock at 92. If the fund is able to establish this trade at these position levels, it successfully establishes an attractive risk/reward profile. Assuming during the holding period, the trade will generate an 1/8 credit from the net short call/long put trade and the long stock position will add an 1/8 in dividend yield, the maximum loss for the position would occur



if the stock were to trade below 90. If this happened, the manager would lose \$2 from the long stock position (stock would be put at \$90) and gain \$0.25 from the credit of the option position and the dividend of the stock for a total loss of \$1.75. Alternatively, the best case scenario would be if the stock appreciated above \$95, in which case the manager would make \$3 from the long stock position (before it is called away above \$95) and \$0.25 from the credit of the option position and dividend of the stock. Thus, the maximum return from the position is \$3.25. Therefore the reward to risk ratio is close to 2 to 1, which is the typical return profile the manager is striving to establish.

Ultimately, although the trade is termed a bull spread trade, the fund is not establishing a position based on the managers market sentiment, but on the ability of the manager to execute the trade to establish an attractive risk/reward profile. As Ezra described it, essentially Ascot is no different than flipping a coin, but trades are structured so that Ascot can be right only 25% of the time and still be able to break even. The ability to execute the trade at a price cheaper than "theoretical parity" is the key to the Ascot strategy. Ezra said that in a gently ascending market the premiums tend to flow into calls and stocks sell closer to put exercise prices which allows for the trade structure described above to be executed. In the above example, the price in which you would be indifferent (ignoring the credit and dividend assumptions) is \$92.50, the mid-point of the call and put exercise prices. Executing the trade at \$92.00 is a tremendous advantage, although it may not seem so at first glance. The \$0.50 price differential is a not a lot when looked at in the context of a \$92, but is a very significant amount when considered within the \$5.00 band in which the trade is being established, providing an execution edge of 10%.

2) A bear spread trade – In this strategy, the manager puts on the opposite positions as the bull spread trade described above. There are market environments in which panic overprices the puts relative to the calls and the short position can be used to finance a long call position. Against this option position, the manager will look to short the stock at a price closer to the call's exercise price. Using the same values as the bull spread strategy described above, the manager would look to short a put at 90 and use the proceeds to be long a call at 95. Generally, in a bearish market environment, the puts can be sold to finance the long call position and provide a small credit to the fund. The manager would then seek to short the stock at approximately 93. Therefore, the downside of the position is limited to \$2.00, assuming the credit from the option position and the debit due to the dividend paid from the short position cancel each other out. The upside of the trade is \$3.00 with the same assumptions. Although the reward to risk ratio is not as high as the bull spread trade position, it still provides the manager with an attractive trade structure. It is important to reiterate that both the bull and bear spread trades are not a reflection of the manager's market view, but are descriptive of the typical market environment in which the fund can put on the appropriate trade. The bear spread trade is only traded approximately 10-15% of the time. Ezra mentioned that in a sense, Ascot is a prisoner to its historic return profile, and although there are some instances where the fund is in cash and the bear spread trade opportunity presents itself, the fund will remain in cash. This is because the reward to risk ratio is not as high as the bull spread trade ratio and thus would create more volatility for the fund.

3) A third strategy of Ascot is put on only after sharp down markets as spikes tend to skew option prices. When this occurs the manager will short two put options, be long a call and long the stock. This is the only directional trade that Ascot will pursue and is not done very often. In this instance, the position is not hedged and the manager believes the sharp sell off in the markets will provide an opportunity to collect expensive premium on the puts and take advantage of a likely rebound in the stock by being long the stock and the call. Ezra told us that this is the highest margin strategy that the fund trades, returning on average 21% over the short time period in which the position is held. (It is not clear

what risk tolerance the manager has when establishing this position, how often this trade is put on and what kind of market sell off has to occur before this strategy is traded.)

4) The fourth strategy which the fund will put on is similar to the bull spread described above except that instead of structuring the trade around a single stock position, the trade is structured around the options of the S&P 100 (OEX). Typically Ascot will be long a basket of between 60-65 stocks and short an OEX call option and long an OEX put option. In a bullish market environment premiums tend to be higher on OEX options. The advantage of trading with this strategy as opposed to single stock positions is that the basket of stocks and the options on the S&P 100 have greater liquidity. (It was not clear if this trade is the only trade that is put on when it is done or if this trade can be accompanied by single stock positions as well)

#### Strategy Execution

As mentioned earlier, the cash is held in a Morgan Stanley account controlled by Ezra Merkin. The fund is run at his discretion. However, the execution of the strategy is mostly completed by Bernie Madoff. Ezra told us that he and Mr. Madoff talk many times through out the year about the strategy, opportunities, and execution. Also, at the end of every year they have a detailed conversation in which Ezra gives Bernie Madoff the right to trade the account within a defined set of ranges (we did not have a chance to discuss the type of ranges or the potential parameters). In the past, Ascot executed these trades as well as allow Mr. Madoff to clear some of these trades through his broker-dealer. However, the execution ability of Madoff, especially in the option market, has proven to have done better than Ascot's own execution and, therefore, the majority of the trade execution and clearing is now done at Madoff Securities. In executing any one particular trade, the fund has a 12 min rule in which Ezra or Bernie have to establish all three legs of the typical trade within 12 minutes, otherwise the trade leg(s) established are sold. This disciplined approach ensures that market risk will be contained within the narrow risk parameters established by any one trade.

#### Return Comments and Outlook

Ezra told us that the Ascot strategy has always benchmarked and attempted to achieve a return greater than twice the 30 year Treasury with consistent quarter-to-quarter performance and low volatility. He also put together a schedule of returns vs the 1 Month LIBOR and the minimum multiple of return for the fund was 2.0x. Although absolute returns have been lower over the last 24-36 months, the returns when compared to the 1-Month LIBOR of recent years have never been better (multiple over 7.4x). Ezra believes that returns of Ascot should increase with rising interest rates. Not only will rising interest rates provide a higher return on cash when the fund is not invested, but a rising interest rate environment is likely to increase equity volatility as well (at least from current historic lows). Ezra stated that in the past an increase in absolute returns of the fund has lagged increases in the interest rates by two to four quarters, and therefore is optimistic that returns will gradually increase from the high single digit returns of the last few years to something closer to the low teens over the next 12-18 months.

Ezra did say that he believes the Ascot strategy will stop working one day. However, it is not a strategy that will blow up, it is simply one that will eventually not produce acceptable returns for investors as the market will provide less and less compelling investment opportunities for the fund. According to Ezra, the street has become smarter and specialist books are now run in a similar fashion to Ascot. The manager will either have to conceive of new trading strategies or wind down as investment opportunities become rarer and returns retreat to cash like levels. However, he does not believe that is the case now and is optimistic that the rising interest rate environment will aide the fund in returning over

10% in the next year.

Conclusion

Although Ezra did not explicitly state this, it appears that the true advantage of the strategy is the ability to execute the trades. The option hedging strategies described are fairly straight forward, however very difficult to replicate as the ability to put on trades at the necessary price levels is very difficult. Given that Mr. Madoff is one of the largest independent market makers on the street, he has the ability to trade stocks and options inside the bid/ask spread. This access is crucial as it allows the fund to structure trades with the favorable risk/return profile described. It is rumored that the Madoff runs over \$10B in this strategy in various managed accounts. One account we are aware of is Fairfield Sentry Limited which has a 0.922 correlation to Ascot. Although the parameters of the strategy appear to be very similar, the Ascot Fund has outperformed Fairfield Sentry 1.5% per annum. We believe this is mostly due to the lower fee structure of Ascot. While there are still some questions which I have highlighted and mention again below, this strategy continues to be one of the best unlevered risk/reward strategies available and should be a core holding of any portfolio.

Additional Questions for Ezra:

- 1) Can positions be put on intra-month or are decisions as to if and how to invest made at a set time each month?
- 2) For the bullish directional trade, how much pain is the manager willing to suffer before closing the position in which it is short two puts against a stock and call position? How often is this trade put on and what is the magnitude of the market sell off that has to occur before the this trade is put on?
- 3) When trading the basket of stocks against index options, could you also be invested in similarly constructed positions of similar stocks?
- 4) What are the type of direction and/or ranges of the parameters you provide Madoff with on an annual basis?
- 5) Besides lower interest rates and volatility, has the decimalization process hurt returns (because the bid/ask spread has narrowed somewhat)?
- 6) Since trading the index options against a basket of stocks what has your experience been with tracking error, for example a stock declining significantly, but the index staying flat? Is the basket of stocks always 60-65 stocks?